

SCHEDULE II

FOREST OIL CORPORATION
FOC AUDIT NO. 05-05-NO – UNOCAL CORPORATION
PROPERTY – TRADING BAY UNIT AND FIELD
FOR THE PERIOD JANUARY 1, 2004 THROUGH DECEMBER 31, 2004

Credit
(Charge)
Due

Exception Description

Exception No. 35 Time Writing – Managerial Charges –Continued-

The attached Schedule XX summarizes the TBU Time Writing charges totaling \$140,395.38 that are covered by the percentage overhead rate. The attached Schedule XXI provides applicable TBU Joint Account data and detailed time and expense data from the electronic Excel spreadsheets contained on the Alaska Time Writing CD provided for the audit. A schedule of the detail JADE data and copies of the supporting documents were previously provided to the Operator.

The Operator is requested to credit the TBU Joint Accounts \$148,819.10 as detailed on Schedule XX for the Time Writing charges that the Operator has been previously reimbursed through the percentage rate overhead as follows:

Exception Amount		\$140,395.38
Overhead Percentage	.06	8,423.72
Total Exception Amount		\$148,819.10

Exception No. 36 Time Writing – Allocation Basis

\$ 147,837.32

A detailed review was made of the electronic Alaska Time Writing System's calculation methodology used to arrive at salaried employees' total costs recorded in the "Charge" category. These salaried employees' monthly salary and expenses are allocated to projects and properties based on the number of days worked applicable to the project or property. However, for determining the allocation base (total days to be allocated), various employees reported only their "actual total worked days" which did not include all work days in the month for which the employee was paid.

The method of not reporting all workdays available in the calendar month causes the employees' full monthly salary to be allocated at an inflated daily rate. This inflated daily salary rate caused the "Charge" category for each allocated project to include employees' unreported time applicable to vacations, holidays, sick leave, excused absences, etc. However, these unreported days-off are already included in the payroll "Benefits" category, and constitutes a duplicate charge to the Joint Account.

The attached Schedule XXII summarizes the total amount of the TBU Time Writing over charges by monthly journal voucher that have been caused by those employees that did not account for all workdays of the applicable month for which they were paid a full monthly salary. The attached Schedule XXIII provides the detail listings from the electronic Time Writing System that shows the allocation basis used and the corrected allocation basis for calculating the over charge of \$139,469.17.

**FOREST OIL CORPORATION
AUDIT EXCEPTION NO. 16
FOC AUDIT NO. 04-06-NO**

AUDITOR: DR Woody
DATE: 10/26/04

OPERATOR: UNOCAL

PROPERTY: Trading Bay Unit and Field AFE/LEASE NO. Various

BILLING MONTH: Various DOCUMENT REF: TIME WRITING SYSTEM

VENDOR:

INVOICE NO:

INV. DATE

INV. AMT:

DESCRIPTION OF EXCEPTION:

CREDIT REQUESTED:

Exception No. 16 Time Writing Allocation Basis

\$ 153,046.23

In May 2002, the Operator established an electronic time reporting system ("Time Writing") applicable to salaried employees located in Alaska effective with January 2002. These salaried employees' monthly salary and expenses are allocated to projects and properties based on the number of days worked applicable to the project or property. However, various employees use total worked days to determine the allocation percentage do not include all work days in the month for which the salary employee was paid for. This practice of not reporting the status of all workdays in the month causes a full month's salary to be allocated at an inflated daily rate, which causes unreported time applicable to vacations, sick leave, excused absences, etc., to be allocated to the Joint Account.

The attached Schedule A summarizes the amount of overcharges by month that has been created by those employees that did not account for all workdays of the applicable month that they were paid for in their monthly salary. Schedule B is the detail list from the Time Writing System that shows the allocation basis used and the corrected allocation basis for calculating the over charge of \$148,588.57.

The Operator is requested to credit the Joint Account for the above referenced over charges totaling \$148,588.57 plus applied overhead.

Exception Amount		148,588.57
Overhead Percentage	.03	4,457.66
Total Exception Amount		153,046.23

OPERATOR'S RESPONSE:

CONFIDENTIAL

UNOCAL011256

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Schedule II

FOREST OIL CORPORATION
FOC AUDIT NO. 04-04-NO
OPERATOR - UNOCAL CORPORATION
PROPERTY - TRADING BAY UNIT

Exception Description	Credit (Charge) Due
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Exception No. 44 Time Writing Allocation Basis**\$ 496,938.24**

A detailed review was made of the electronic Time Writing System's calculation methodology used to arrive at salaried employees' total costs recorded in the "Charge" category. These salaried employees' monthly salary and expenses are allocated to projects and properties based on the number of days worked applicable to the project or property. However, for determining the allocation base (total days to be allocated), various employees reported only their "actual total worked days" which did not include all work days in the month for which the employee was paid.

This practice of not reporting all workdays available in the Calendar Month causes the employees' full monthly salary to be allocated at an inflated daily rate. This inflated daily salary rate caused the "Charge" category to include employees' unreported time applicable to vacations, holidays, sick leave, excused absences, etc. These unreported days-off are already included in the payroll "Benefits" category, and constitutes a duplicate charge to the Joint Account.

The attached Schedule XXVIII summarizes the amount of overcharges by monthly journal voucher that have been caused by those employees that did not account for all workdays of the applicable month for which they were paid a full monthly salary. Schedules XXIX through XXXVIII are the detail listings from the electronic Time Writing System that show the allocation basis used and the corrected allocation basis for calculating the over charge of \$482,464.31.

A schedule of the detail JADE data and copies of the supporting documents were previously provided to the Operator.

The Operator is requested to credit the Joint Account for the above referenced over charges totaling \$496,938.24 as follows:

Exception Amount		\$482,464.31
Overhead Percentage	.03	\$14,473.93
Total Exception Amount		\$496,938.24

TOTAL AUDIT EXCEPTIONS	\$ 5,654,284.88
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**FOREST OIL CORPORATION
AUDIT EXCEPTION NO. 10
FOC AUDIT NO. 03-07-NO**

AUDITOR: DR Woody
DATE: 11-18-03

OPERATOR: UNOCAL
PROPERTY: Trading Bay Unit AFE/LEASE NO. Various
BILLING MONTH: Various DOCUMENT REF: Various
VENDOR: Manual Journal Voucher
INVOICE NO: INV. DATE INV. AMT: \$174,231.61

DESCRIPTION OF EXCEPTION:

Drilling Foreman Salary and Expense Distribution

The Operator has indirectly allocated various manually coded Drilling Foremen labor costs and expenses to the Operator's Kenai/Nikiski area operated properties. Per Employee Time/Expense Distribution Reports and payroll summary worksheets provided by the Operator, the monthly salary distributions basis days used for "the monthly Standard Work Days" for distributing Drilling Foreman and Employees' salaries varied each month from 5 days to 23 days

The above referenced salary and expense should have been done uniformly by using the same Monthly Standard Work base days for time distribution where the employees' chargeable days are less than the standard work-days in the month.

These salaries billed by the Operator also include a bonus payment given only to Doug R. Nienhaus, Drilling Foreman. Per COPAS Bulletin Number 5, Section II under employee benefits, bonuses are chargeable to the Joint Operations only when made available to all of the Operator's employees on an equitable basis.

The attached Schedule A provides a summary of the excessive charges to the Joint Account applicable to the incorrect use of monthly Standard Work Days Bases. Schedule A redistributes the Drilling Foremen's salaries and expenses using the Industry Standard Monthly Work-day Base of 21.67 days.

INVOICE CHARGES	\$164,369.44
OVERHEAD OF 6%	<u>9,862.17</u>
CREDIT REQUESTED	<u>\$174,231.61</u>

OPERATOR'S RESPONSE:

FOC-CO 021113

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**FOREST OIL CORPORATION
AUDIT EXCEPTION NO. 43
FOC AUDIT NO. 03-06-NO**

**AUDITOR: REK
DATE: 03/11/03**

OPERATOR: UNOCAL

PROPERTY: See Attached Schedule

BILLING MONTH:

See

Attached
Schedule

AFE/LEASE NO. See Attached Schedule

DOCUMENT REF: See Attached Schedule

VENDOR: Unocal

INVOICE NO:

See

Attached
Schedule

INV. DATE

See

Attached
Schedule

INV. AMT: See Attached Schedule

DESCRIPTION OF EXCEPTION:

Drilling Foreman Employee Expenses

Operator charged the joint accounts \$387,414.73 for Drilling Foreman's salary, bonus, burden and direct expenses. The Operator pro rated these costs on a time use basis.

Per the worksheets provided by the Operator the number of days per month varied from 5 days to 24. Information Request #62 requested the basis of the variation on the days per month. Based on 366 days in 2000 the average number of days per month should be 21.786 days.

Monthly salaries billed by the Operator varied from \$7,786.00 to \$23,437.90 for the same Drilling Foreman. Explanation provided by Operator on Information Request # 56 does not explain the variations in salaries and no documentation was provided to verify the actual salaries paid by the Operator.

Charges billed by Operator also include bonus paid to Drilling Foreman, Hauck, totaling \$2,021.59 plus burden. Per COPAS Bulletin 5, Section II under Employee Benefits it states that bonus are chargeable "which are made available to all employees of the operator on an equitable basis."

Attached worksheet adjusts for the number of days in the month, monthly salary (used lowest rate charged per employee) and bonus charges. Based on the assumption stated above a credit is due the joint of \$175,681.92 for the Drilling Foreman charges.

Breakdown

Journal Voucher Charges	170,564.97
Overhead @ 3%	5,116.95
Total Exception	<u>175,681.92</u>

Forest Oil requests the Operator to provide a credit to the joint property for \$175,681.92 or provide supporting documentation verifying these charges.

CREDIT REQUESTED \$ 175,681.92

OPERATOR'S RESPONSE:

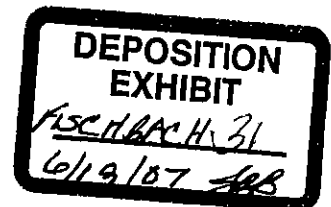
Exception No. 15: Technical Employee Labor – JV JIAK Tech Emp J5 10

Fieldwork Exception No.	15	Report Exhibit Reference	O
Exception Amount (Gross)	\$64,087.19	Exception Amount (Non-Operator Net)	\$29,755.41
Calculated Overhead (Gross)	\$3,845.23	Calculated Overhead (Non-Operator Net)	\$1,785.32
Exception Total (Gross)	\$67,932.42	Exception Total (Non-Operator Net)	\$31,540.74

The Joint Accounts are being allocated and charged for the technical labor of Drilling Foremen, Drilling Engineers, and Wireline Coordinators from the Operator's Journal Voucher "JIAK Tech Emp J5 10" processed each month. A review of the Operator's worksheet calculating the amount of payroll to be charged to each Joint Account revealed that the Operator was utilizing a salary per day rate that was incorrect. The salary per day rate was improperly calculated by the Operator by dividing the monthly salary by the number of reported days worked in the month. When the employee only reported a portion of the available work days of the month, the salary per day became improperly inflated. The Operator is making the erroneous assumption that the unreported days should be allocated into the days worked by inflating the day rate. As per the Statement of Clarification and Intent made part of the Accounting Procedures to the Operating Agreement, the salaries, wages, and payroll burden of technical employees should only be charged to the Joint Account when they are performing services for the benefit of the Joint Account.

A recalculation of the labor charges utilizing a 21.67 day per month standard (based on a 40 hour/week and 52 weeks/year) was used to determine the salary per day rate by the auditor. The attached worksheets detail and summarize the adjustments necessary for the overcharge of labor from Journal Voucher "JIAK Tech Emp J5 10".

Credit Requested \$64,087.19



(Complaint)

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